USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - public distribution

Date: 10/18/2005

GAIN Report Number: KS5055

Korea, Republic of

Product Brief

Korean Fresh Potato Market

2005

Approved by:
Larry M. Senger
U.S. Embassy

Prepared by:
Stanley S. Phillips / Sunyoung Choi

Report Highlights:
In 2004, Korea imported $12 million (25,885 tons) of fresh potatoes, an increase of 65 percent from the previous year. In 2005, however, imports of fresh potatoes are expected to decrease sharply to about $7 million due mainly to the absence of an allocation for table potatoes within the 2005 TRQ. In 2006, the imports of fresh chipping potatoes are forecast to increase in line with the quota, which was announced at 18,810 MT.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Seoul [KS1]
[KS]

Section I. Market Overview

Increasing consumption of fresh potatoes for chipping stock has resulted in greater imports in recent years. As imports have grown the market share held by U.S. fresh potatoes has also improved from 3 percent in 2001 to 38 percent in 2004. A number of phytosanitary issues have been resolved to facilitate increased imports. However, some significant phytosanitary issues remain for some origins.

Fresh Potato Area and Production

Despite reduced area, improved yields have allowed fresh potato production to remain around 500,000 to 600,000 metric tons in recent years.

Table 1: Korea's Fresh Potato Production

Calendar Year	2000	2001	2002	2003	2004
Production (metric tons)	704,623	603,627	666,173	498,401	588,383
Cultivated Area (hectares)	29,415	24,691	24,673	20,219	25,141

Source: Korea Rural Economic Research Institute (KREI)

Potatoes for the Chip Manufacturing Industry

Korea used about 50,000 tons of fresh potatoes for chip manufacturing in 2004. Within this amount, about 32,000 tons of domestic fresh potatoes were used and 18,000 tons of imported fresh chipping potatoes were used. In 2004, the Korean snack market was estimated at about $630 million. Potato chip sales increased from about 8 percent of the snack market share in 1996 to about 22 percent ($135 million) in 2004.

Imports of fresh chipping potatoes increased from 8,000 tons in 2001 to 18,000 tons in 2004 because of increased demand from the chip manufacturing industry. In 2006, chip manufacturers located in Korea are expected to increase their chip production program by contracting for more chipping stock with local potato farmers and by requesting an increased import quota to meet consumer demand.

Potatoes for Table Stock

Imports of table potatoes depend mostly on the domestic harvest. The Korean government regularly allocates a Tariff Rate Quota (TRQ) for processed potatoes but only allocates TRQ for table potatoes in response to a poor harvest of domestic fresh potatoes.

Table 2: Advantages and Challenges for U.S. Fresh Potatoes

Advantages	Challenges
U.S. chipping stock has low starch ratios that reduce browning and prevent sweetened chip flavor.	Buyers have little knowledge of U.S. varieties and/or growing, storage, and shipping techniques needed to preserve quality.
Korea has a growing snack food market.	Menus/recipes for fresh potatoes need to be developed for Korean consumers.
Market access constraints are subsiding.	Exports from certain regions of the U.S. are prohibited.
The wide variety of U.S. fresh potatoes provides flexibility in meeting Korean	Negative impressions of imported fresh potatoes due to quarantine issues.

needs.	
Dietary trends favor increasing use of potatoes.	Consumers are unaware of the health benefits of potatoes.
Increased interest in healthy foods offers an opportunity.	Potatoes are considered a side dish rather than a main dish.

Section II. Market Sector Opportunities and Threats

In 2001, about 70 percent of the local potato production was consumed as table potatoes and 16 percent as processed potatoes. Due to expanded demand from the chip manufacturing industry, in 2001 the overall consumption share of processed potatoes increased to 16 percent from only 1 percent in the 1980s.

Table 3: 2001 Domestic Fresh Potato Consumption by Sector

	Table stock	Processed stock	Seed Potato	Other
Consumption (MT)	420,000	96,000	37,500	46,500
Share (%)	70 %	16 %	6 %	8 %

Source: Rural Development Administration (RDA) CY 2001 Data

1. Entry Strategy

The Korean potato chip industry is comprised of three major chip manufacturers (Orion, Nong Shim, and Haitai) accounting for about $135 million in sales in 2004. None of these three companies imports directly. They rely on local trading companies that have the knowledge and expertise to import the product. Potato chip manufacturers use domestic fresh chipping potatoes from April to December and import potatoes during the off-season from January to March.

Fresh chipping potatoes are imported under a tariff rate quota (TRQ) system, which is governed by aT (Korea Agro-Fisheries Trade Corporation). The quantity of the TRQ can be adjusted, depending upon local production. During 2002 to 2004, Korea imported about 12,000 tons of table potatoes to help stabilize prices after two poor harvests. Conversely, most fresh potatoes for chip manufacturing are imported due to the limited storage life during winter of domestic fresh potatoes.

- At present, the best strategy for entering this market is to contact one of the importers that has knowledge and market information.

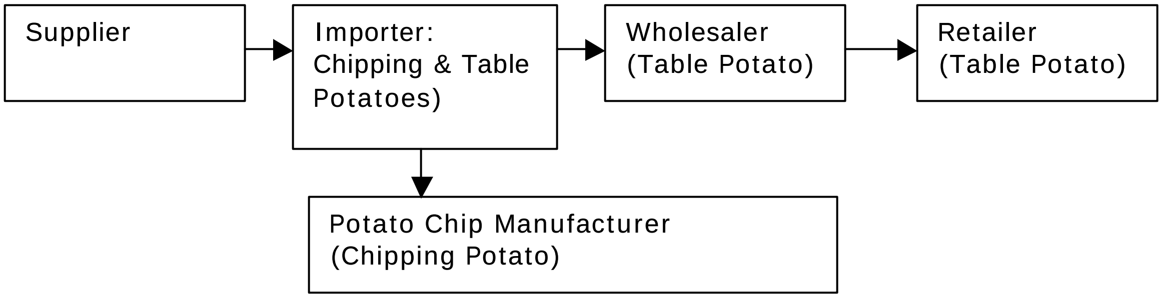
- Before exporting, U.S. suppliers should obtain a phytosanitary certificate from an accredited certifying official. Contact your federal, state or country agricultural office for details.

- The U.S. Potato Board has a local Korean representative that undertakes activities to promote U.S. fresh potatoes in the Korean market. Contact information is provided in Section V.

2. Market Size, Structure and Trends

The Korean potato chip market is growing at an average rate of 10 to 15 percent every year, while the total snack market is growing at an average of only 2 to 5 percent per year. Among the $635 million in sales of the Korean snack market, potato chips represented about 22 percent in 2004.

The distribution channel for imported fresh potatoes is as follows;



3. Company Profiles

Table 4: Company Profiles (Potato Chip Manufacturing)

	Company	2004 Amount of Imported Chipping Potatoes	Annual Sales	Market Share
1	Orion Snack International	9,000 – 10,000 MT	$ 75 – 80 million	58 %
2	Nong Shim Co., Ltd.	4,500 – 5,000 MT	$ 30 – 35 million	28 %
3	Haitai Confectionary and Foods Co., Ltd.	2,500 – 2,700 MT	$ 20 – 22 million	14 %
Total		17,000 – 18,000 MT	$ 125 – 137 million	100 %

Source: Snack Industry.

4. Table Potatoes

The self-sufficiency rate for total potatoes has been maintained at the level of 90 percent for the past five years and per capita consumption is around 14.2 kg during the same period. Consumer research in 2004 showed that most Korean consumers are concerned with freshness and price (60%) when buying fresh potatoes. Only 4 percent considered the origin when making purchase decisions.

Another survey conducted specifically on imported fresh potatoes found that only 17 percent of the total respondents knew anything about imported fresh potatoes and 83 percent replied that they had never seen or eaten an imported potato. Among the 17 percent of consumers who knew about imported fresh potatoes, only 4 percent stated that imported potatoes were better because of their size, shape and price.

5. Trade & Competition

In 2004, Korea imported a total of $12 million of fresh potatoes (25,885 tons) from Australia and the United States. These two countries are currently the only foreign suppliers for the Korean market and respectively accounted for 62 percent and 38 percent market share in 2004. The United States has been able to increase its share of the Korean market primarily because Korean manufacturers decided to diversify sources and take advantage of the wide variety of U.S. potatoes available to the market.

Table 5: Fresh Potato Imports (and Market Share) by Country
Unit: Metric Tons

	CY 2001	CY 2002	CY 2003	CY 2004
Australia	7,882 (98%)	10,789 (97%)	11,702 (65%)	16,133 (62%)

U.S.A.	160 (2%)	344 (3%)	6,402 (35%)	9,752 (38%)
Total	8,042	11,133	18,104	25,885

Source: Korea Customs Service (KCS)

Section III. Costs and Prices

The wholesale prices of local fresh table potatoes are determined by the harvest (quality) and production (quantity). In 2004, the average annual price of Sumi variety was W 28,820 / 20 kg ($1.26/kg) and Daeji was W 39,820 / 20 kg ($1.74/kg), which is 34.4 percent and 48.5 percent higher from a year ago due to an increase in low quality potatoes caused by bad weather.

Table 6: Price Comparison of Fresh Chipping Potatoes

	Procurement Price	Factory Arrival Price	
Country	Korea	U.S.A.	Australia
Average Price per kg	520 – 570 Krw	580 – 620 Krw	720 – 750 Krw
Exchange Rate in 2002		1251.62 Krw / US$	679.97 Krw / AU$
Exchange Rate in 2004		1146.19 Krw / US$	783.36 Krw / AU$

Source: Potato Chip Manufacturing Industry

Due to the current favorable Korean exchange rate of Korean won against the U.S. dollar, U.S. chipping potatoes are imported into Korea at about a 20 percent lower factory arrival price than those from Australia.

Table 7: Average Price for Imported Fresh Potatoes 2004 and 2005 CIF

Calendar Year	Total Imports (tons)	Imports from U.S. (tons)	US Imports ($ / kg)	Imports from AUS ($ / kg)	Total Imports ($ / kg)
CY 2004	25,885	9,752	0.41	0.50	0.46
CY 2005 (Jan-Jun)	16,783	4,164	0.32	0.51	0.46

Source: Korea Trade Information Services (KOTIS)

Section IV. Market Access

Tariffs and Quotas

The TRQ for fresh potatoes is governed by the Ministry of Finance and Economy (MOFE) and allocations are issued by the Korea Agro-Fishery Trade Corporation (aT), a quasi-governmental organization. aT gives preference to chipping potato importers over table stock importers and allocates the TRQ on a first-come, first-served basis. Two years ago, wholesalers of table stock potatoes were allocated some of the quota in order to keep prices at reasonable levels for the first time. However this is not likely to be repeated. The tariff rate for fresh potatoes is 30 percent for in-quota and 304 percent for out-of-quota. There have been no out-of-quota purchases. In 2004, MOFE increased the TRQ by 7,300 MT in order to stabilize local prices of fresh potatoes.

Table 8: Korea's Tariff Rate Quota (TRQ) for Fresh Potatoes
Unit: Metric Tons

	CY 2001	CY 2002	CY 2003	CY 2004	CY 2005 (Jan – Jun)
TRQ	16,302	17,138	17,974	18,810	18,810
Chipping Potatoes	8,051	10,983	14,404	17,985	16,783
Table Potatoes	-	350	3,700	7,900	-
Total Import Qty.	8,051	11,133	18,104	25,885	16,783

Source: Korea Customs Services (KCS) & Korea Agro-Fishery Trade Corporation (aT)

Inspection and Quarantine

Due to quarantine regulations (pest control), 18 U.S. states (Maryland, Pennsylvania, West Virginia, New York, Utah, Nebraska, California, Montana, Arizona, Colorado, New Mexico, North Dakota, Kansas, Wyoming, Delaware, Oklahoma, South Dakota, Nevada) are not allowed to export fresh potatoes to Korea. Victoria state in Australia is also not allowed to export fresh potatoes to Korea. In April 2004, the Korean government officially removed Verticillium Tenerum from its quarantine list.

Columbia Root Knot Nematode (CRKN) is a quarantine pest in Korea. Accordingly, shipments from all origins are subject to quarantine inspection for CRKN. Imported potatoes must remove any foreign materials including dirt from the shipment.

Section VI. Key Contacts and Further Information

For further information or assistance on the Korean fresh potato market, please contact:

US Agricultural Affairs Office
Tel: (011-82-2-) 397-4297 / 4189
Fax: (011-82-2) 738-7147
Email: agseoul@usda.gov
FAS Homepage: www.fas.usda.gov

US Potato Board Korea Representative
Tel: (011-82-2) 543 – 9380
Fax: (011-82-2) 543 - 0944
Email: info@sohnmm.com
Homepage: http://www.potatoesusa-korea.com/